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GENERAL

1. French reject German mark devaluation proposal--US High Commissioner McCloy reports from Paris that the "nervous" French political situation was an important factor in the French Government's refusal to agree to a 20% devaluation of the German mark. According to McCloy, the French are insisting that agreement be reached simultaneously on German devaluation and on the establishment, not later than 1 January 1950, of parity between German domestic and export prices, especially for coal. McCloy, on the other hand, considers it impractical and unwise to attempt to remedy the consequences of a new mark rate before the results of German devaluation are known. McCloy recommends that the High Commission proceed with a 20% devaluation of the mark, even without French concurrence; he points out, however, that if the French then appeal the action of the High Commission, the results in Germany would be most unfortunate, if not disastrous.

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FAR EAST

2. CHINA: Sinkiang goes over to Chinese Communists--
The US Vice Consul in Tihwa has been officially informed that the government of the northwest border province of Sinkiang on 26 September severed all connections with the Canton Government and accepted the authority of the Chinese Communists in Peiping. According to the Vice Consul, the question of when Chinese Communist troops will enter Sinkiang has not yet been settled.

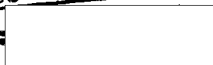
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State Dept. review completed